



Cal ESP—"Planning For Your Financial Future"

California Employee Savings Program

PURPOSE

The California Employee Savings Program will offer secure, voluntary and portable supplemental individual retirement savings accounts that workers can freely take from job to job without penalty, providing them with the opportunity to build their assets and help prepare them for their retirement, at no cost to taxpayers.

BACKGROUND

Currently, more than 70 million American workers do not participate in an employer-sponsored retirement savings plan. **Today, six million California employees, 41% of the state's workforce, work at a job that does not offer a pension or a retirement savings plan to supplement Social Security.**

As a result, approximately 40% of today's baby boomers rely on Social Security benefits for more than 90% of their income. However, Social Security payments alone, which average to \$901 per month in California, will not be enough to sustain Californians in their retirement. **This lack of retirement savings may equate to a higher cost for government services,** as seniors without savings will be more likely to require government assistance with housing, medical care and other necessities.

Particularly, investments in savings accounts from small business, low-income, and/or short-tenured and transferable employees are exceptionally low.

Only 48% of part-time workers participate in a retirement savings plan. **Nearly 65% of low-income workers—those earning less than \$40,000—do not participate in employer plans.**

Often, complexity and cost on administering retirement systems prevent many small companies from creating retirement plans for their employees. A majority of firms with fewer than 500 employees nationwide do not offer retirement savings options.

Moreover, though some workers may currently participate in a retirement plan, if that worker moves into

a new job with a new business, they often lose access to that same plan. The result is gap coverage.

Workers today are spending more than they are saving, relying more on credit, and thus accruing debt and risking their future financial security. Nationally, the personal savings rate for individuals has fallen to 0.5 percent of one's income for 2007. At this rate, even with Social Security benefits, **Californians will not be able to afford retirement.**

Our savings habits must change, and even a small monthly contribution can create a great financial advantage for Californians. For example, if a 25 year-old saved \$100 a month, or \$1,200 annually, with a 6.9% rate of return she would have \$233,474 at age 65.

California workers need a seamless, lifelong retirement savings system, providing them with the opportunity to build their assets and help attain their financial stability through a secure, portable savings account. **The California Employee Savings Program will create an option and system to do so, supplementing existing savings options for its workers, at no cost to taxpayers.** While a few states have begun assessing these possibilities, e.g. Washington, Illinois, **California would be the first state in the nation to implement and provide this opportunity.**

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PROGRAM FEATURE

A secure and portable supplemental savings system for workers, made available through automatic payroll deductions and optional employer contributions.

The CalESP will promote expanded retirement security for working Californians and employers' sponsorship of retirement plans for their employees.

SPONSOR: The New America Foundation